

Reflections on Resilience

(and Findex Micro-data)

Jonathan Morduch (NYU)

Based on work with Leora Klapper (World Bank)

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Measuring “financial resilience”

- Global Findex 2021 asked adults about their ability to come up with emergency money equivalent to **5 percent of GNI per capita**—around **\$3300** in the USA and **\$320** in India.
- Just over half a month of income for the median US household in 2021.
- In the next 30 days?
- In the next 7 days?
- How would you do it?

“Developing economies”

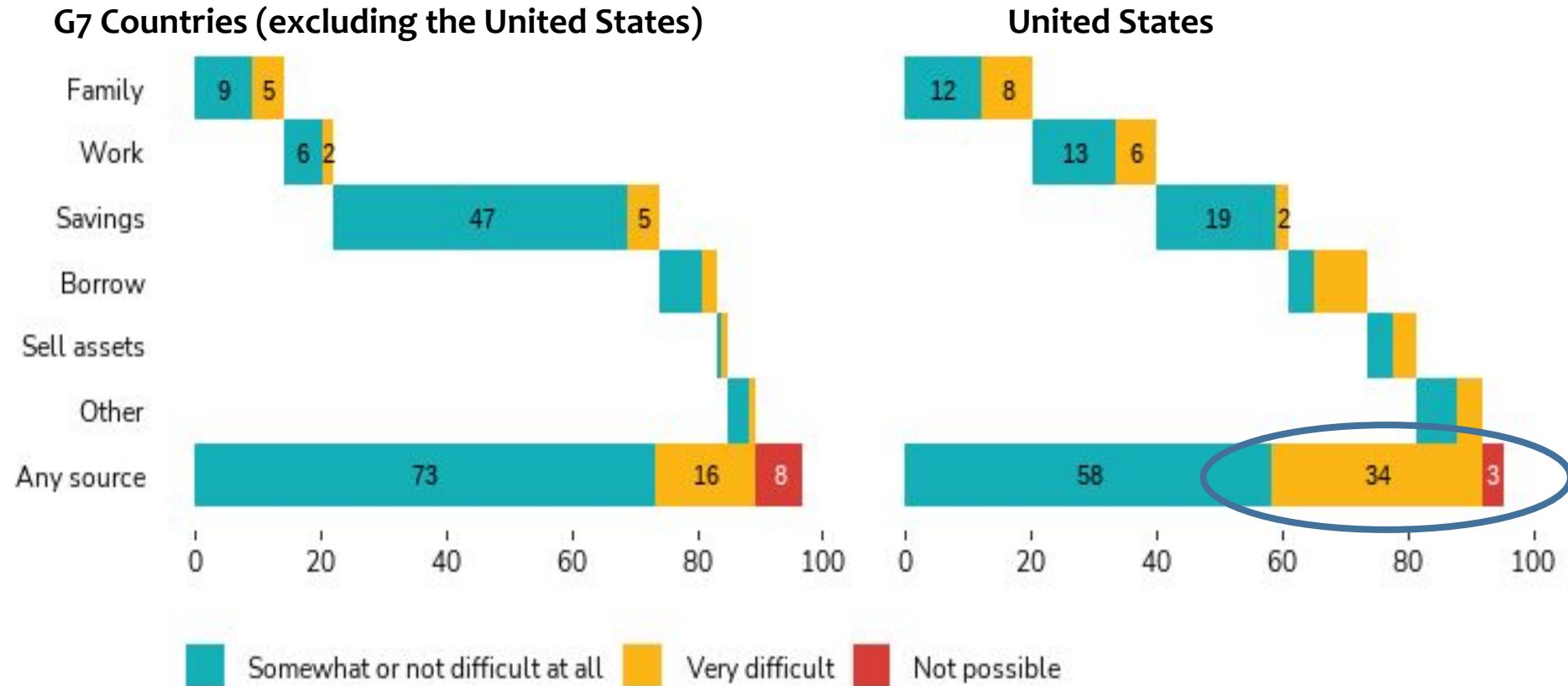
■ Somewhat or not difficult at all ■ Very difficult ■ Not possible

Bottom 40%	40	42	13
Top 60%	64	26	6

Source: Global Findex 2021. Leora Klapper and Paul Gubbins. “To build financial resilience, we need to promote savings.” World Economic Forum. Jul 29, 2022

HIGH-INCOME COUNTRIES

Adults identifying the source of, and assessing how difficult it would be to access, emergency money
(% of adults in the poorest 40% of households, by income), 2021

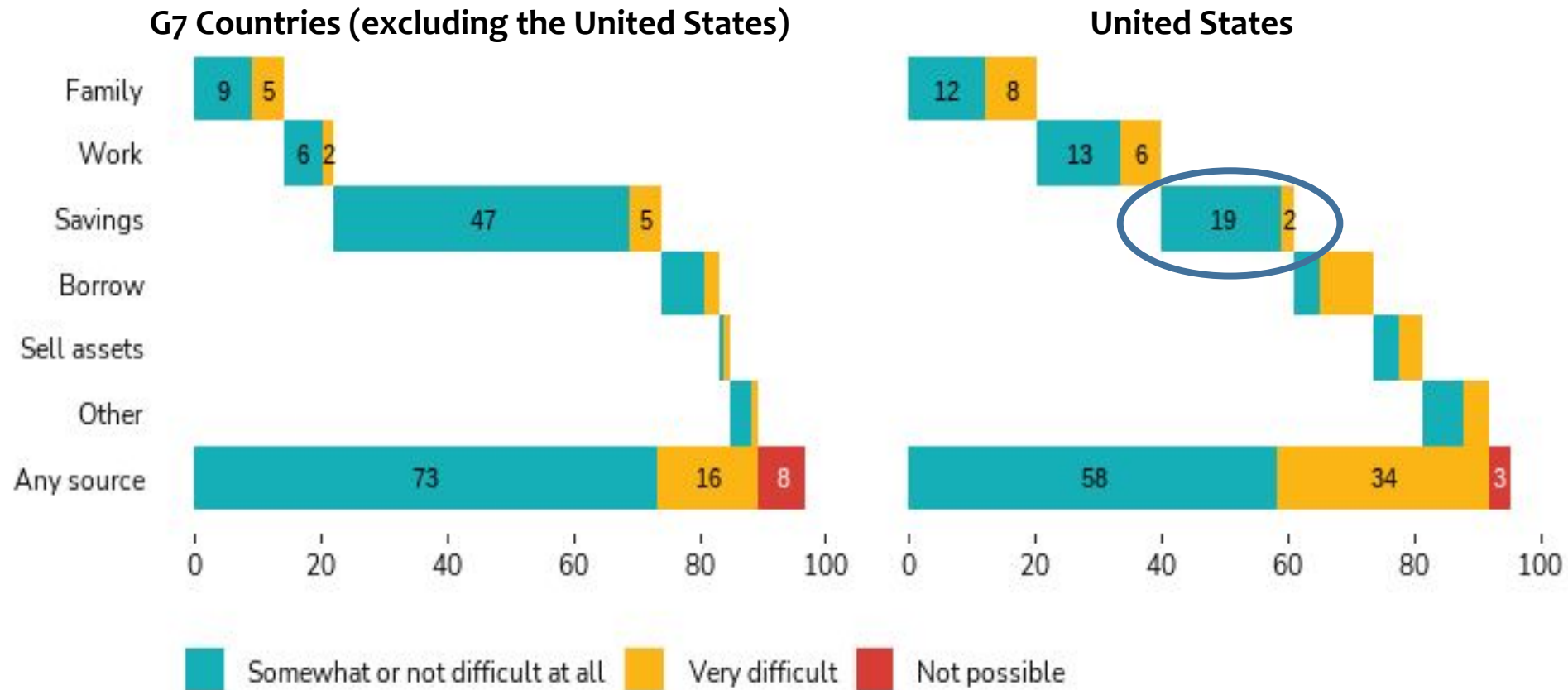


Source: Global Findex Database 2021.

Note: The length of the bar in each row is the share of adults that reported using the specified source of money. A small share of adults did not know or refused to disclose their main source of emergency money.

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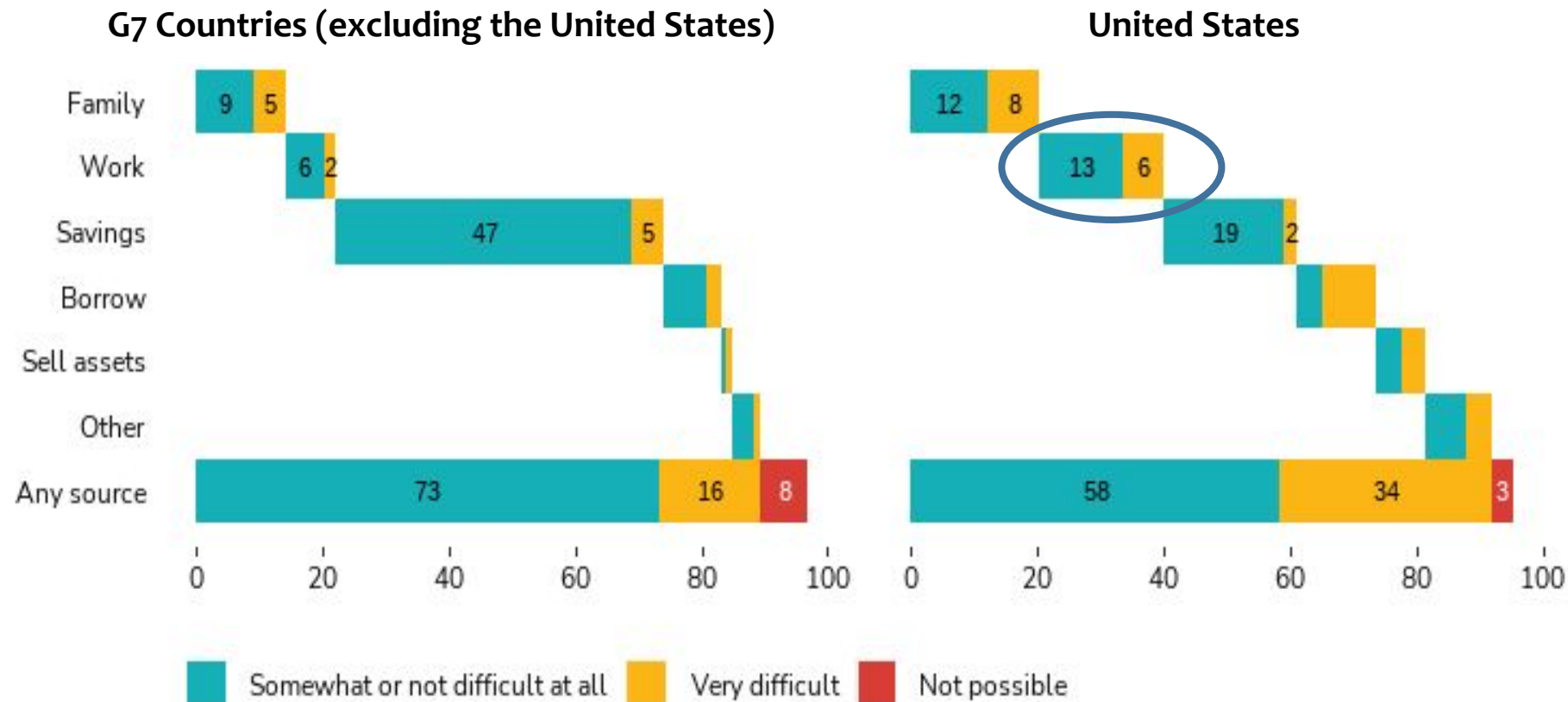


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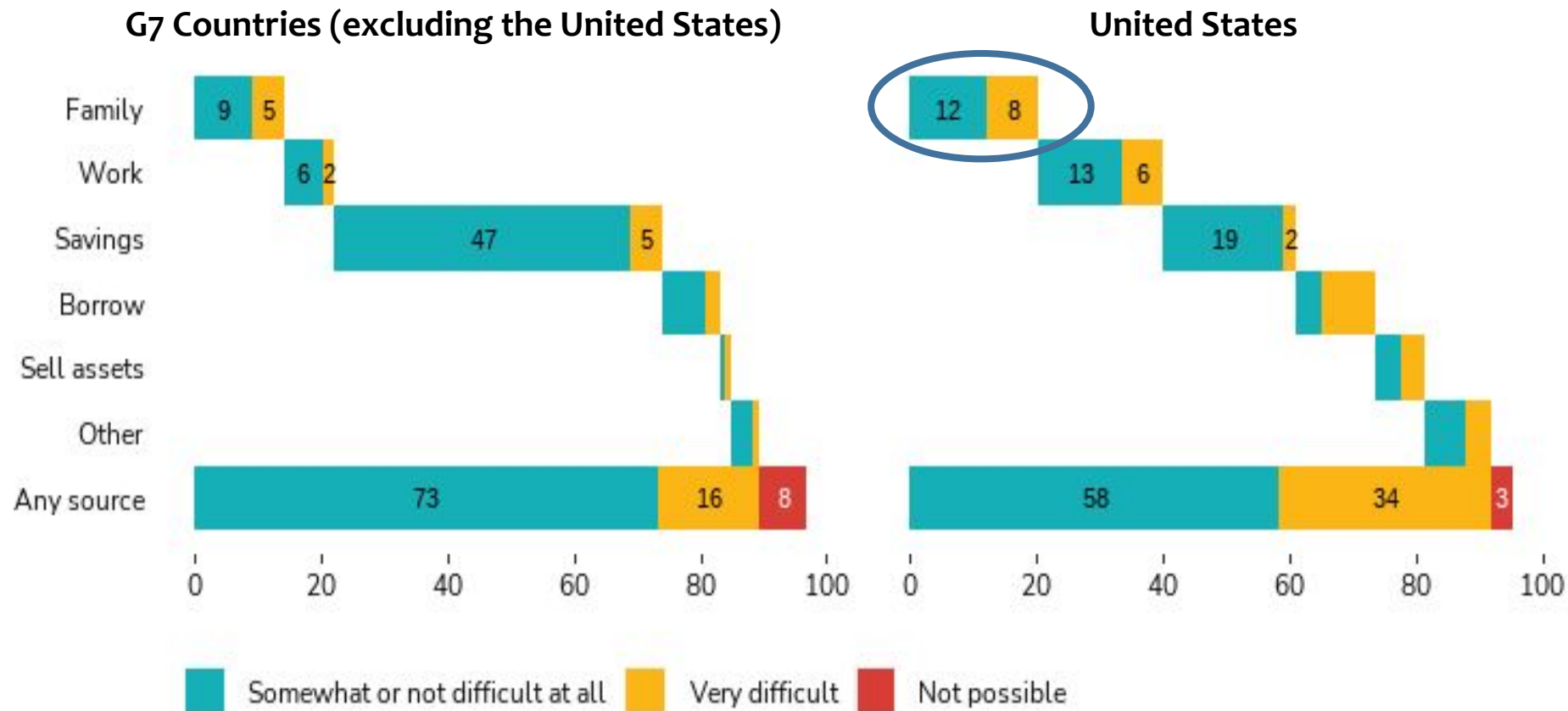


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Implications for policy

- Recognition of exposure to shocks, a reinforcement of inequalities.
- Family & friends matter financially, even in the USA (US Financial Diaries).
 - Predatory lenders are not automatic fallback.
- Policy discussion: Emergency funds as workplace benefits (Canary)
- Public safety nets (and flexibility with retirement accounts)
- Individual saving

Interpretation?

Measuring “financial resilience”

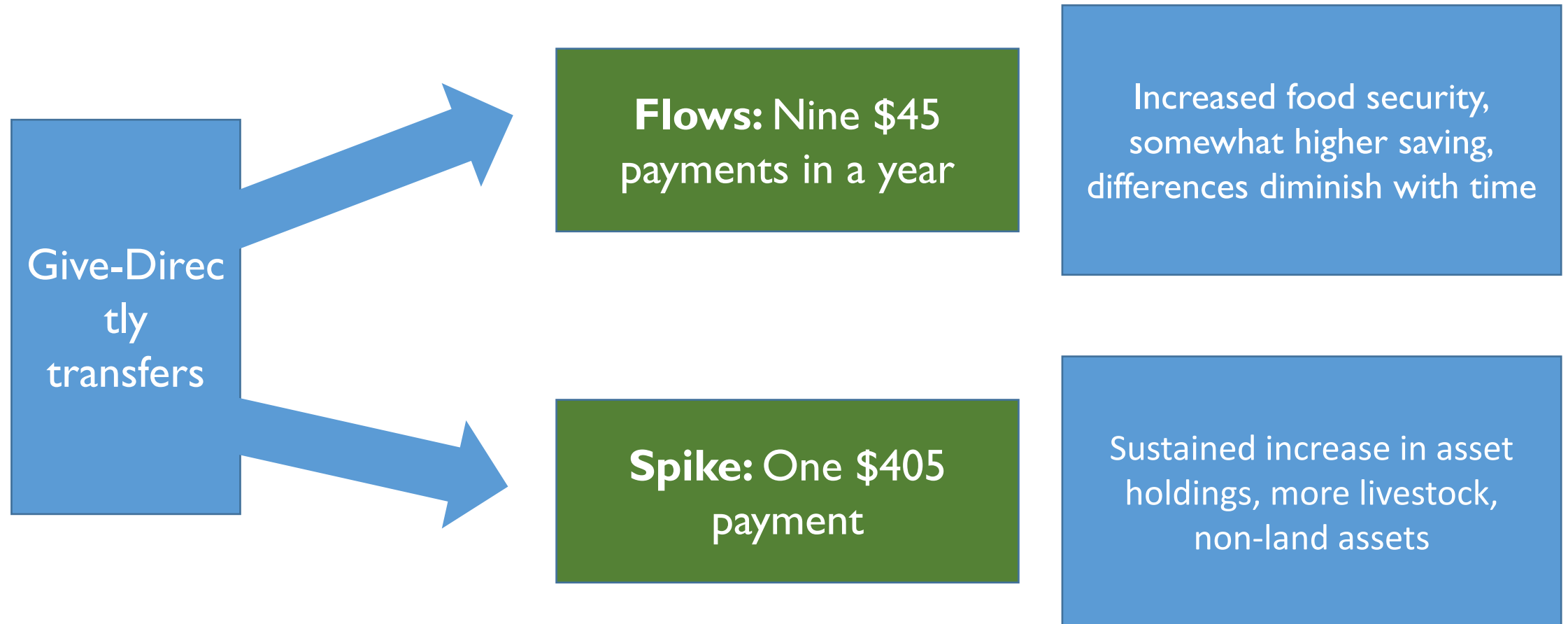
- Ability to come up with emergency funds is tied to challenge of coming up with a **large lumpy sum**.
- But if you can't come up with the money when you *really* need it, it's likely harder to come up with the sum during normal times.

2 basic cash management moves

Financial diaries and high frequency data: follow cash flows within the year

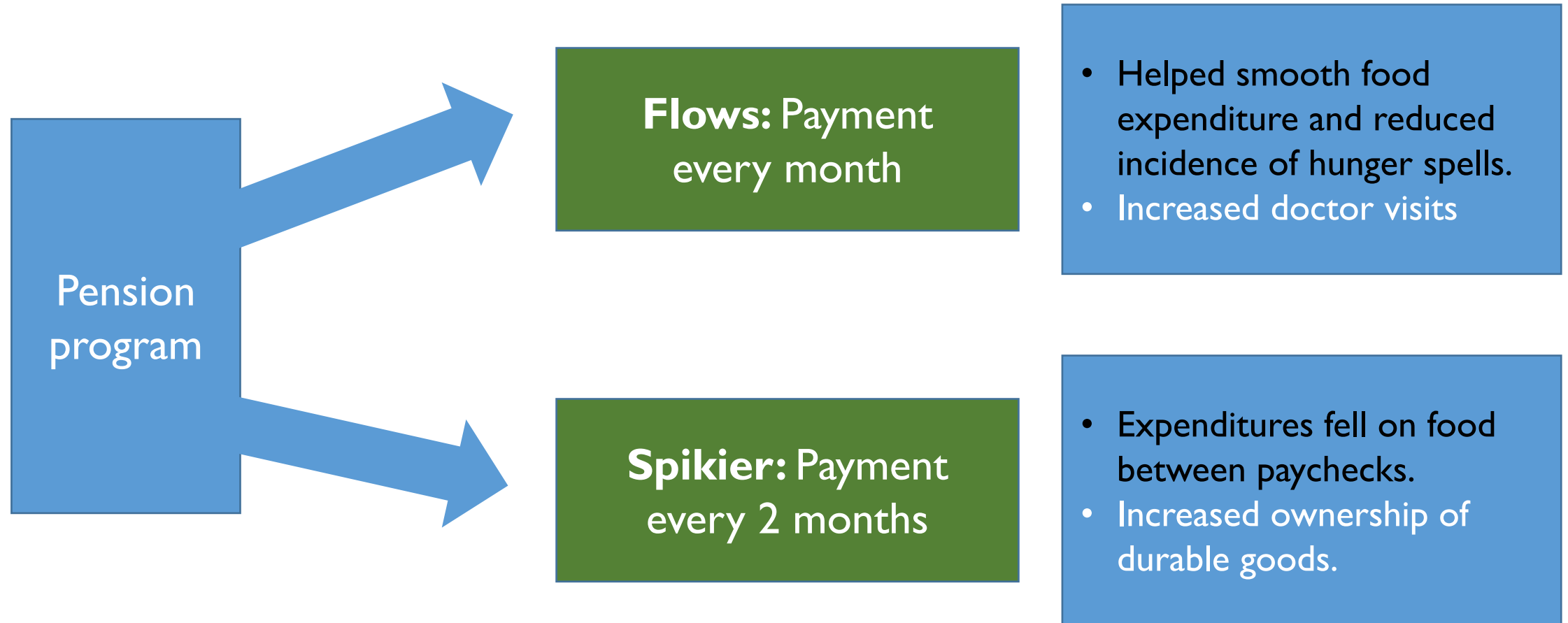
- 1) Aggregation (spiking) – creating lumps
 - 2) Distribution (smoothing) – creating flows
- More fundamental than saving and borrowing
 - Theory of intertemporal optimization mainly focuses on **consumption smoothing** and illiquidity.
 - Counter-intuitive: **Aggregation of cash flows (to spike spending) can be critical for consumption smoothing** – repairing house, buying a bicycle, purchasing in bulk...
 - RCTs increasingly show the challenges of spiking – creating large sums for indivisible purchases
 - **Resilience** requires a form of spiking, **adding urgency to indivisibility**

Lumps and flows: Cash transfers in Kenya



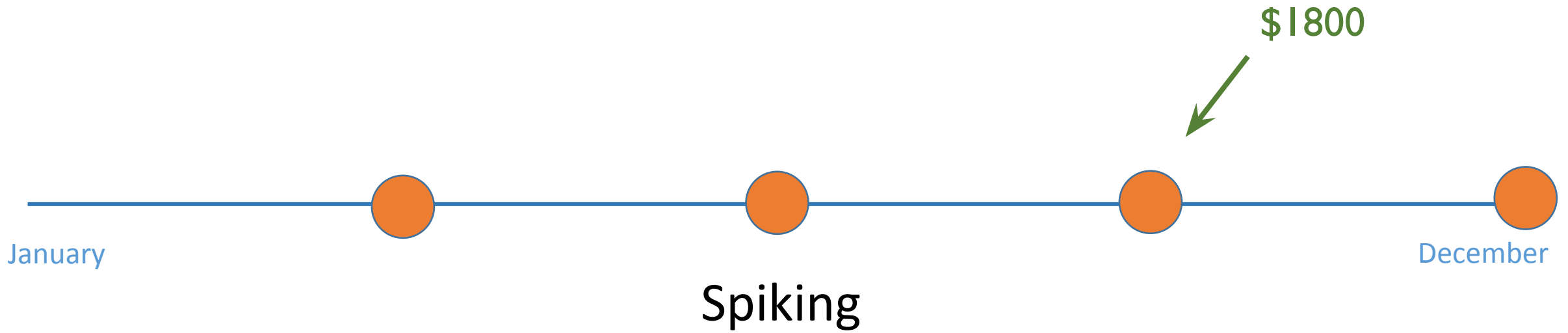
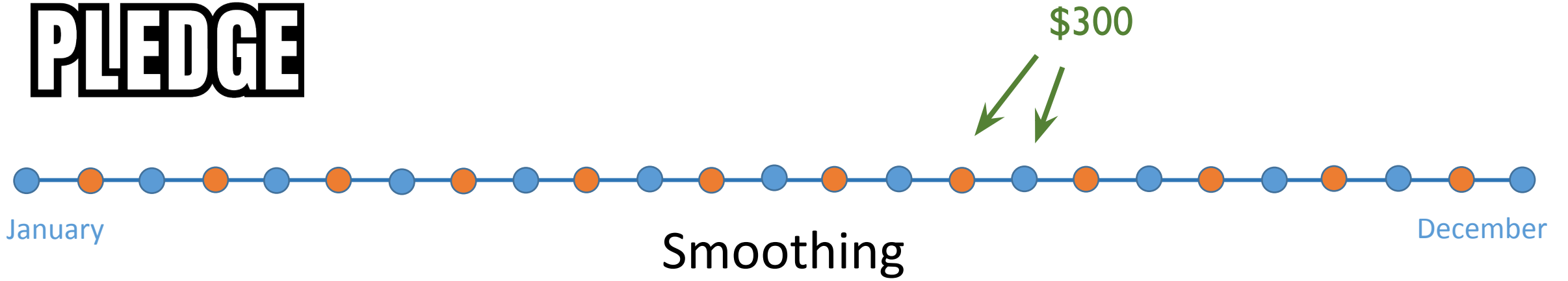
Haushofer, Johannes, Jeremy Shapiro. 2016. "The Short-Term Impact of Unconditional Cash Transfers the Poor: Experimental Evidence from Kenya." *The Quarterly Journal of Economics* (2016), 1973–2042. doi:10.1093/qje/qjw025.

Pensions in Mexico



COMPTON PLEDGE

\$7200/year (household with 2+ children)



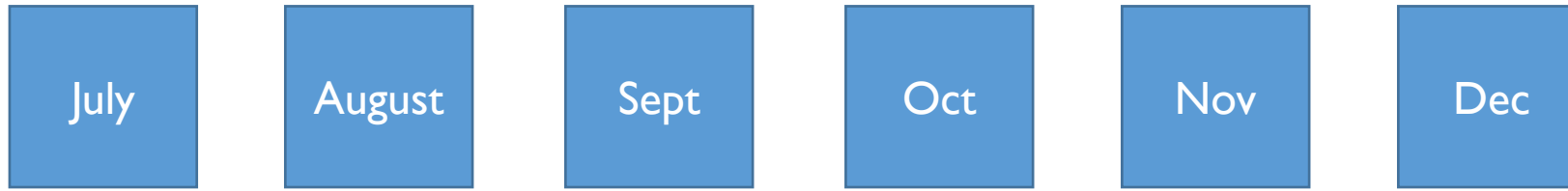
Customized cash transfers: financial lives and cash-flow preferences in rural Kenya

Carolina Kansikas, Anandi Mani, Paul Niehaus. 9/22

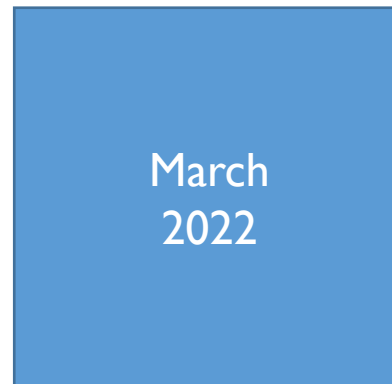
- GiveDirectly gave cash transfers to 513 low-income households in rural Kenya (worth approximately \$1,000)
- Recipients given degree of control over # of installments (tranching) and timing.
- Then randomized the actual structure of transfers, conditional on recipient preferences.
- Most recipients preferred “lumpy” tranching:
 - One tranche: 35.6%
 - Two tranches: 62.6%
 - 12 monthly installments: 0.4%
 - demand for lumpiness in private-sector contracts

Hybrid: Biden child tax credit, USA

2021:



2022:



Concluding thought

- Dig into the micro data
- Challenge during emergencies: Size / indivisibility / urgency
- Broader challenge: Size / indivisibility
- Cash flow insight: **Spiking** of cash flows/spending is needed to **smooth** consumption
 - Seeing that is one way to bring the financial picture in the Findex closer to broader concerns in development economics